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INFO RUCPDOC/DEPT OF COMMERCE WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

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RUEAIIA/CIA WASHDC

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UNCLAS SECTION 01 OF 02 KINSHASA 000663

SIPDIS

SENSITIVE

STATE PLEASE PASS USAID

STATE PLEASE PASS USGS

DEPT FOR AF/S, EEB/ESC AND CBA

DOE FOR SPERL AND PERSON

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SUBJECT: DRC/ZAMBIA - COBALT MINES AND PRICES BOOM

REF: A) KINSHASA 515

B) LUSAKA 666

C) LUSAKA 744

D) KINSHASA 646

**¶11.** (U) This cable represents the fifth in a series of reports stemming from an innovative resource-reporting and commercial advocacy collaboration between Embassies Pretoria, Kinshasa, and Lusaka (reftels). The sixth report will summarize DRC copper/cobalt mines.

**¶12.** (SBU) SUMMARY: International companies are investing in ambitious mega-projects on both sides of the DRC/Zambia copper belt, despite significant government interference and infrastructure challenges (reftels). The region represents the world's second greatest source of copper and greatest source of cobalt, which is present in some - but not all - of the copper mines. Cobalt has growing industrial applications and exhibits thin supply from a volatile region, which has led to surging, volatile prices. The DRC's Tenke Fungurume (Freeport McMoRan Copper and Gold Inc.) and Kolwezi Tailings (First Quantum Minerals Ltd.), Zambia's Chambishi (Chinese interests) and a few others will produce significant incremental cobalt to the global market. End Summary.

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Growing Use - Limited Supply  
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**¶13.** (SBU) Cobalt is a strategic and critical metal used in diverse commercial, industrial, and military applications. Cobalt is used in super-alloys for jet engines, chemicals (paint driers, petrochemical catalysts, magnetic coatings, pigments, and rechargeable batteries), magnets, cemented carbides for cutting tools, and radioactive isotopes for medical uses. Batteries for hybrid vehicles are a new growth area for cobalt. The United States uses about one-third of total world consumption, but does not significantly mine or refine cobalt. The U.S. is selling limited amounts of cobalt from its dwindling National Defense Stockpile.

China has become the world's leading producer of refined cobalt from processing of cobalt-rich ores and concentrates imported from the DRC. There are hopes that in the future cobalt can be retrieved from ocean floor nodules, but the technology and international agreements do not exist to economically extract this resource.

¶4. (SBU) Principal cobalt producing countries are the DRC, Zambia, Canada, Cuba, Australia, and Russia, historically produced in association with other minerals. The DRC has almost a 40 percent share. The DRC and Zambia cobalt resource is uniquely contained in sedimentary copper deposits, as opposed to nickel bearing deposits in the rest of the world.

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DRC Ramps up Cobalt Production  
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¶5. (SBU) The DRC supplies the world with significant quantities of cobalt in ores, concentrates, and semi-refined materials. A number of new projects are expanding the DRC's production beyond the artisanal mining of heterogenite, often processed and exported informally or illegally. The Embassies team visited:

DRC: Tenke Fungurume (Freeport McMoran - U.S.)  
DRC: Kolwezi Tailings (First Quantum - Canadian)  
DRC: Ruashi (Metorex - South African)  
Zambia : Chambishi (drive-by only; Chinese interests)

¶6. (SBU) Tenke Fungurume is under development and will eventually represent the largest source of both copper and cobalt. It is

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building a substantial cobalt processing facility and targets 8,000 tons per year of cobalt in 2009. First Quantum's Kolwezi Tailings will be premised on processing of tailings from state company Gecamine's historical copper operations. The company targets 7,000 tons per year cobalt initially, with hopes to increase this to 10,000 tons. Metorex is constructing Ruashi Phase II which will produce 3,500 tons of cobalt by 2009. Other significant cobalt mines under development - but not visited by the embassy team are: Katanga Mining's Kamato which targets 1,600 tons in 2008, increasing to 5,000 tons by 2011, KOV/Nikanor which targets up to 25,000 tons, and Central African Mining and Exploration's (CAMEC) Mukondo Mountain with a target of 12,000 tons per year. There are reputedly a number of scattered, smaller copper/cobalt mines with domestic and Chinese interests in the DRC. In Zambia, Chambishi Metals produces 3,227 tons and a few other mines produce lesser, declining amounts.

¶7. (SBU) In January of 2008, the DRC temporarily put a moratorium on the export of cobalt concentrate, even though some companies had prior agreements to refine product in Zambia and elsewhere. This moratorium compounded existing supply tightness - particularly given inadequate processing capacity in the DRC - and prices surged to almost \$50 per pound. Smuggling has been and remains rampant. Many interlocutors describe Chinese involvement with informal mining, trade, and processing.

¶8. (SBU) Cobalt prices averaged \$49/lb in the first half of this year, compared with \$30 in 2007 and \$17 in 2006. Cobalt prices have declined 20 percent since the peak in March. Market analysts forecast continued tightness in the market and demand marginally exceeding supply of 60,000 tons.

¶9. (SBU) Comment: Cobalt prices are likely to remain volatile and high with uncertainty in the DRC investment and operating environment. If all the incremental supply comes on line as planned, which could approach as much as 50,000 tons, there is a strong possibility that prices would dip. But realizing this scale of number assumes the DRC allows mining companies flexibility and transparency in running their investment, including processing and marketing, which is still unclear. In any case, it is likely that many of these projects will only be developed over a longer time frame. At the same time, long-term new technology and industry are driving new applications and increasing demand for cobalt, so the outlook is still bullish for cobalt prices. The companies that the embassy team visited are contributing significantly to the DRC's tax

revenues, social development, jobs, and skill development.

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